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EEB FOR SPECIAL ENVOY BOYDEN GRAY AND AMBASSADOR STEVEN MANN

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SUBJECT: KAZAKHSTAN - DECISION NOT TO INVEST IN BATUMI REFINERY MADE WELL BEFORE GEORGIA CONFLICT

¶1. (SBU) Energy Officer spoke on September 25 to Nurlan Sauranbayev, Managing Director of Oil Transportation at KazMunaiGas (KMG), about press reports that KMG has abandoned plans to invest $1 billion in an oil refinery in the Georgian port city of Batumi. Sauranbayev confirmed that KMG decided not to make the investment, but said the decision was made well before the August conflict in Georgia and was made entirely for economic reasons.

¶2. (SBU) Sauranbayev strenuously denied the implication that Kazakhstan was pulling its investments out of Georgia. On the contrary, he emphasized that the Batumi oil terminal is a strategic asset of KMG and is an "essential element" of Kazakhstan's multi-vector transportation policy, in particular maintenance of the Eurasian corridor. In fact, Sauranbayev said that he had just met with representatives of Chevron and was planning to meet later in the day with representatives of ExxonMobil to discuss expansion of oil shipments from Atyrau to Baku and onward to Batumi.

¶3. (SBU) According to Sauranbayev, development of the feasibility study for a new Batumi refinery was suspended long before the crisis erupted in the Caucasus. In 2007, KMG sent a team of engineers to Batumi to assess the feasibility of either renovating the existing refinery or building a new (green field) refinery. Ultimately, KMG determined that neither project was commercially viable because the existing refinery did not meet minimum technical specifications and a new refinery would require a larger plot of land at a greater distance from residential housing and the sea than would be possible at the site.

¶4. (U) In August 1999, UK-based holding company Greenoak Group paid $27.1 million for an oil transshipment facility on an 80-hectare lot near the port of Batumi in a privatization transaction with the Georgian government. Greenoak Group subsequently invested more than $60 million over three years to upgrade terminal facilities. In December 2006, Greenoak Group subsidiary Naftrans and KMG subsidiary KazTransOil formed a joint venture called Batumi Terminals JV in order to secure future volumes for the Batumi terminal and the Azerbaijan-Georgia rail corridor. In March 2007, Greenoak Group and KMG signed a memorandum of cooperation to develop a feasibility study for a new refinery in Batumi.

¶5. (SBU) Mogens Hansen, CEO of the Batumi Oil Terminal, and a member of Greenoak Group's senior management, told Energy Officer on September 25 that there was "nothing strange at all about the decision" not to build a new refinery. When asked if KMG's decision had anything to do with the conflict in Georgia in August, he said, "no, no, no -- nothing to do with that -- this was strictly a business decision."

¶6. (U) According to Greenoak, the Batumi terminal's transshipment capacity is currently 12 million tons per annum and the reservoir capacity is over 510,000 tonnes. Unloading capacity is 212 railway tank cars. Vessel loading is performed at three berths and one offshore loading buoy. The Batumi Oil Terminal is capable of handling vessels with deadweight up to 130,000 tons with drafts ranging from 12 to 16 meters and length up to 255 meters.

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